

*Commonwealth
of Massachusetts*



1968 annual report

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DEPARTMENT OF CORPORATIONS & TAXATION



**MASSACHUSETTS
DEPARTMENT
OF
CORPORATIONS & TAXATION.**

1968 ANNUAL REPORT



Mass Officials



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Governor Francis W. Sargent accepting draft of Annual Report from Commissioner Cleo F. Johnson

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CLEO F. JAILLET
COMMISSIONER

The Commonwealth of Massachusetts
Department of Corporations and Taxation
State Office Building, Government Center
100 Cambridge Street, Boston 02202

Honorable Francis W. Sargent
Governor of Massachusetts
and Members of the
Massachusetts General Court

Gentlemen:

It is again my privilege to submit to you the Annual Report of the Department of Corporations & Taxation for the fiscal year period ended June 30, 1968.

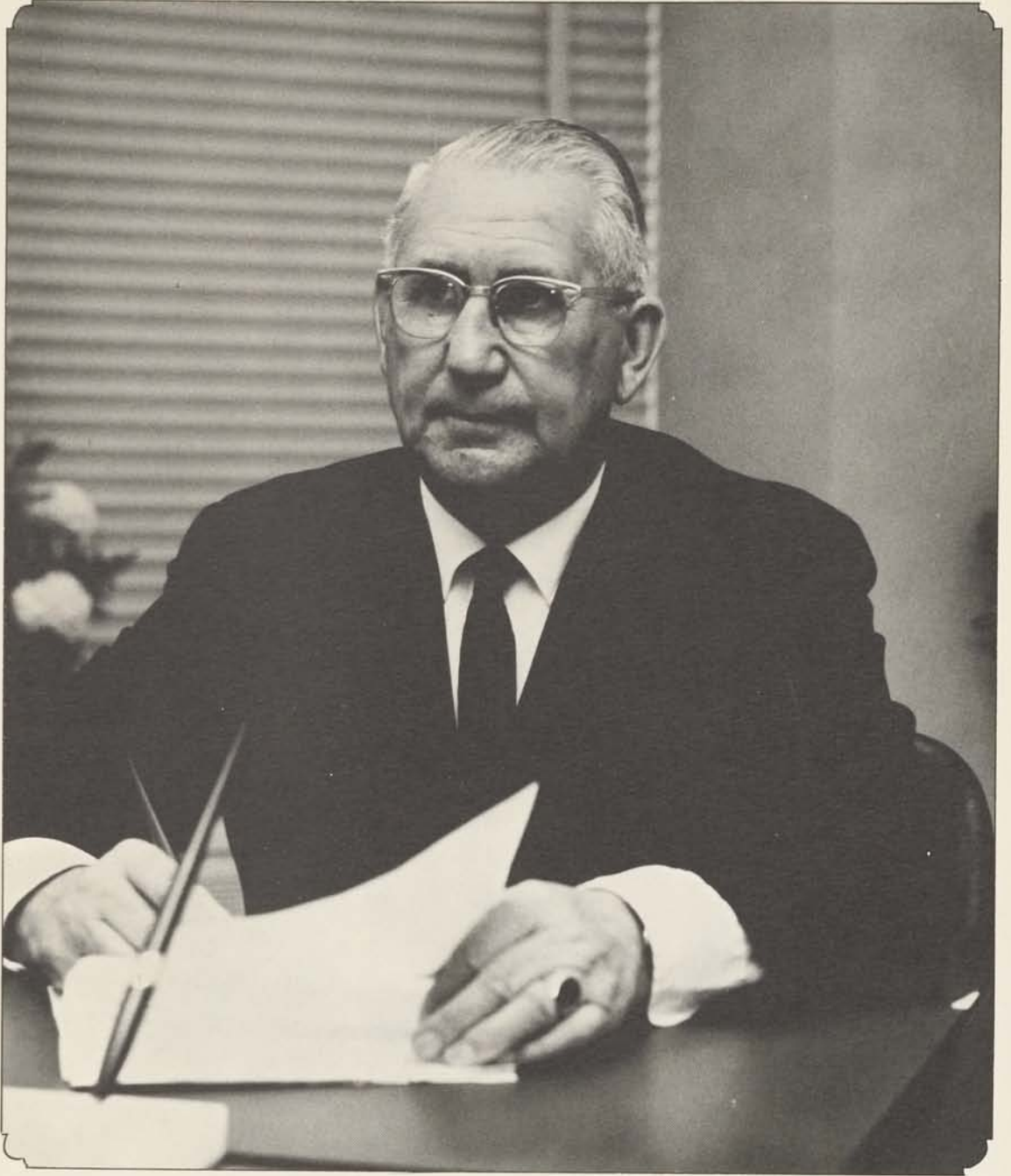
This report is forwarded in compliance with Subsection 2, Section 4 of Chapter 14 of the Massachusetts General Laws. Such relevant portions of this report as must be consolidated therewith, inclusive of that called for at periodic intervals or when such data is available will be submitted accordingly.

In making the report available, I wish to express my appreciation to the Executive Office for Administration and Finance, specifically the State Printing Office of that agency and the Department of Commerce and Development, Division of Tourism, for valuable assistance rendered in its layout, production and design.

The members of the Department of Corporations & Taxation trust that its contents will be of value and interest both to our elected officials and the citizens of the Commonwealth.

Respectfully submitted,

Cleo F. Jaillet
Cleo F. Jaillet
Commissioner



CLEO F. JAILLET

**Commissioner of Corporations and Taxation
Reviewing the 1968 Fiscal Year ended June 30th**

With the closing of the 1968 fiscal period on June 30, 1968, a milestone in the affairs of the Department of Corporations and Taxation was passed. Commensurate with the close of the period gross tax collections, from all the administered sources, had both attained and exceeded the billion dollar level. In terms of the steadily growing pace of the Massachusetts economy, this was a most significant and historical development.

This factor of a total revenue yield, within the billion dollar level, is indicative both of all current economic barometers and greater taxpayer compliance in the payment of taxes due. This latter factor points up the centralization of departmental effort in terms of more widespread enforcement of the tax laws and their necessary correlation, the broader application of an audit of all taxpayer accounts. The historical connection is noted in the advent of an era when total tax collections, of the billion dollar magnitude, will be a common fiscal consideration.

It necessarily follows that revenue considerations, in whatever amounts, are always a precarious proposition. These are estimates that must ever be cognizant of the constant inflationary pressures that underlie periods of peak prosperity, the recession or temporary setback that might well be a development in any transitional period between war and peace.

From what can presently be noted, however, the view of an unfolding economic landscape would appear to be fairly well defined. The present period, marked by vast technological advances together with the multiple needs of a fast changing world will, in the opinion of the more reliable sources, offer new and wholly enlarged spurs to the general economy. Massachusetts, by virtue of its relative proximity to major centers of scientific advancement and the further fabrication of such technological change, would appear to be favorably positioned in keeping with any immediate benefits resulting.

Equally significant and of gathering concern to all governmental functions is the further prognosis as deals with expanding demands for further educational benefits, hard-core poverty programs and other aspects of the vast program of social rehabilitation currently envisaged in America. These combined, revenue-draining

endeavors, will have their own relative impact. As presently visualized they are suggestive only of more in the way of direct governmental intervention unless, as now appears wholly probable, both private industry and all of individual American enterprise somehow joins ranks in a solid front designed to share the burden of these complex national problems.

The broader panorama of the era now unfolding might best be characterized as an 'impact' period. Surely, it will be a time of mounting budgetary demands wholly supplementary to normal governmental expenditures. This will entail, as well, an acceleration of effort on the part of all tax administrators to meet the inevitable spiral by a more diligent investigation of normal taxpayer compliances as an alternative to new levys or a further broadening of the base of existing taxes. This is a most feasible interim step and one that is sure to gain the undivided attention of tax officials in any and all taxing jurisdictions.

THE SPIRIT OF '76

Archibald Willard's immortal painting depicting the zeal and courage of our colonial forbears parades militantly across a wall of historic Marblehead town hall. This famous canvas, executed about the year, 1876, is a source of timeless inspiration for all schoolboys.



DONALD T. WOOD
Associate Commissioner

The ever increasing economic scale, in any current evaluation, presages both advantages and disadvantages for the average taxpayer. Competing with the mounting social pressures is the further prospect of a steadily expanding economy and the accrued gains resulting from a more effective tax administration. The relative impact will be positioned somewhere within this balance or median consideration.

Within the scope of any long range forecast, too, it could as well be anticipated that the implementation of such programs for the uneducated and the disadvantaged should, in due course, have the alternative effect of elevating all those, now so deprived, into the Common Mass Market with a corresponding rise in consumer expenditures. This would indicate at its further reaches, some leveling point effecting a necessary balance, a point suggestive of less reliance on normal tax revenues for purposes of the amelioration of purely social problems.



LEO E. DIEHL
Associate Commissioner

THE OLD STATE HOUSE IN BOSTON

Built in 1713 on the site of its predecessor it has been restored, after successive alterations, to its original robust appearance. This was the seat of government of the British in the eighteenth century until the revolution and thereafter of the Commonwealth of Massachusetts until the completion of the new State House in 1798.



TAX	DESCRIPTION	RETURN
PERSONAL INCOME	a. Business Income 4% b. Annuity Income 2% c. Sale of Tangibles 8% d. Interest and Dividends 8% e. Eminent Domain Real Estate 50%	\$308,955,474
CORPORATIONS	Business & Manufacturing Corporation \$7.00 per \$1000 value of Massachusetts tangible property not taxed locally, or net worth allocated to Mass. plus 7.5% of net income. Security Corporations 1% of gross income or \$100 whichever is greater. (When not classified as a regulated investment or bank holding company under Internal Revenue Code). Interstate Corporations 4% on that portion of net income from business carried on in Massachusetts.	\$155,879,046
SALES (& USE)	3% on gross retail sales, and on storage, use or consumption of tangible personal property.	\$145,112,263
MOTOR FUELS	\$.06½ per gallon of gasoline or other motor vehicle fuel	*121,848,334
CIGARETTE EXCISE *	\$.10 per package (5 mils per cigarette)	\$ 68,341,797
ALCOHOLIC BEVERAGES	Malt beverages — \$2.40 per 31 gallon barrel or fractional part Cider (3% to 6% alcohol) — \$.02 Still Wine (including vermouth) — \$.40 per wine gallon Sparkling Wines & Champagne — \$.50 per wine gallon Other (24% or less alcohol) — \$.80 per wine gallon Other (over 24% to 50% alcohol) — \$2.95 per wine gallon Other (over 50% alcohol) — \$2.95 per proof gallon	\$ 44,754,321
INHERITANCE	1¼% to 18¼%, based on relationship of inheritor to decedent of all property (except real estate or tangible personal property outside Massachusetts).	\$ 38,301,587
INSURANCE	Life Insurance Companies 2% of gross premiums less returns premiums and dividends Marine and Fire & Marine Companies 5% of underwriting profit (allocated to Massachusetts) Casualty Companies 2% of gross premiums	\$ 29,452,005
BANKS	Banks, Banking Associations, and Trust Companies Not more than 10% of net income. State Tax Commission establishes annual rate. Savings and Cooperative Banks; Savings & Loan Associations 1/20 of 1% of average deposits semi-annually plus 1% of net operating income.	\$ 20,248,550
MEALS	5% of total (over one dollar or more) including cover and/or other charges	\$ 17,425,207
PUBLIC UTILITIES	5% of net income and allocated net income of intrastate companies	\$ 10,340,034
ROOM OCCUPANCY	5% of total (over two dollars or more per day) on each occupancy for first 90 consecutive days or less.	\$ 4,506,984
REAL ESTATE TRANSFER	\$1.00, if the value of sale of lands and other realty is \$100 to \$500 plus \$.55 for each additional \$500 and/or fractional part.	\$ 2,641,366
MOTOR VEHICLES* *(Cars and Trailers not principally garaged in any specific city or town)	Rate is based on 3 year average of property tax rates (not to exceed \$66 per thousand of valuation).	\$ 379,414

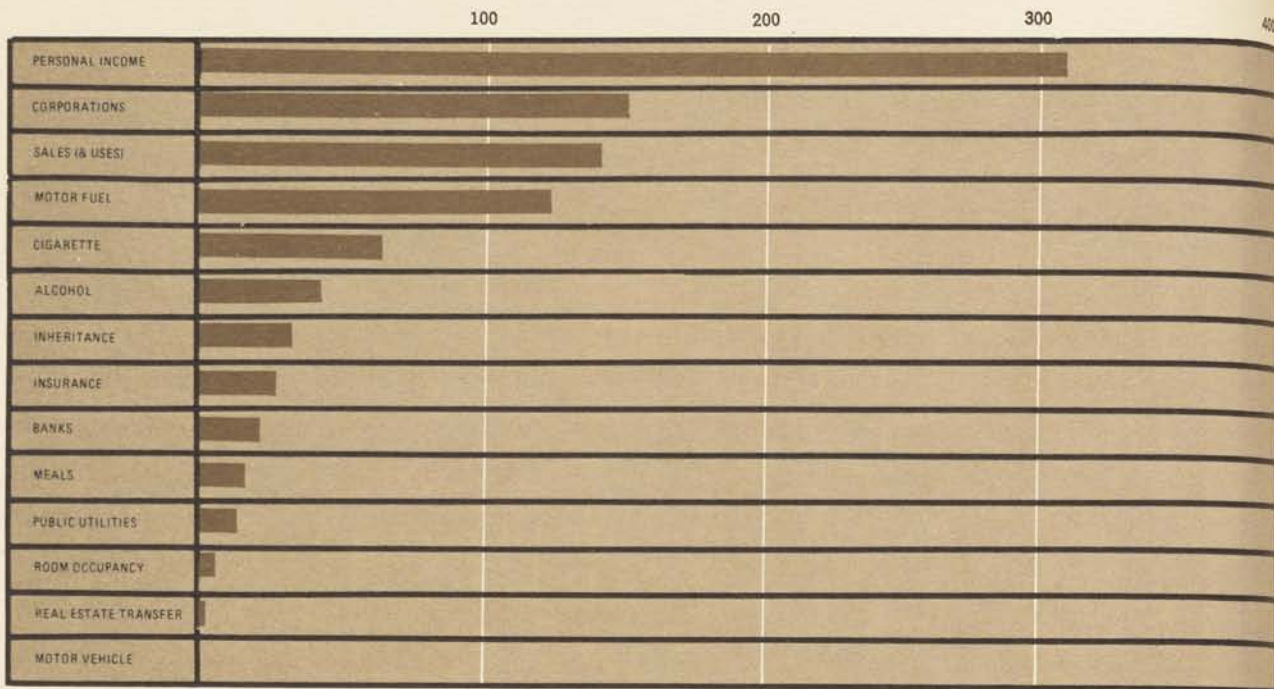
* 1969 Fiscal Year will be \$.12 per package (6 mils per cigarette)

Massachusetts Taxes With Returns In FY 1968

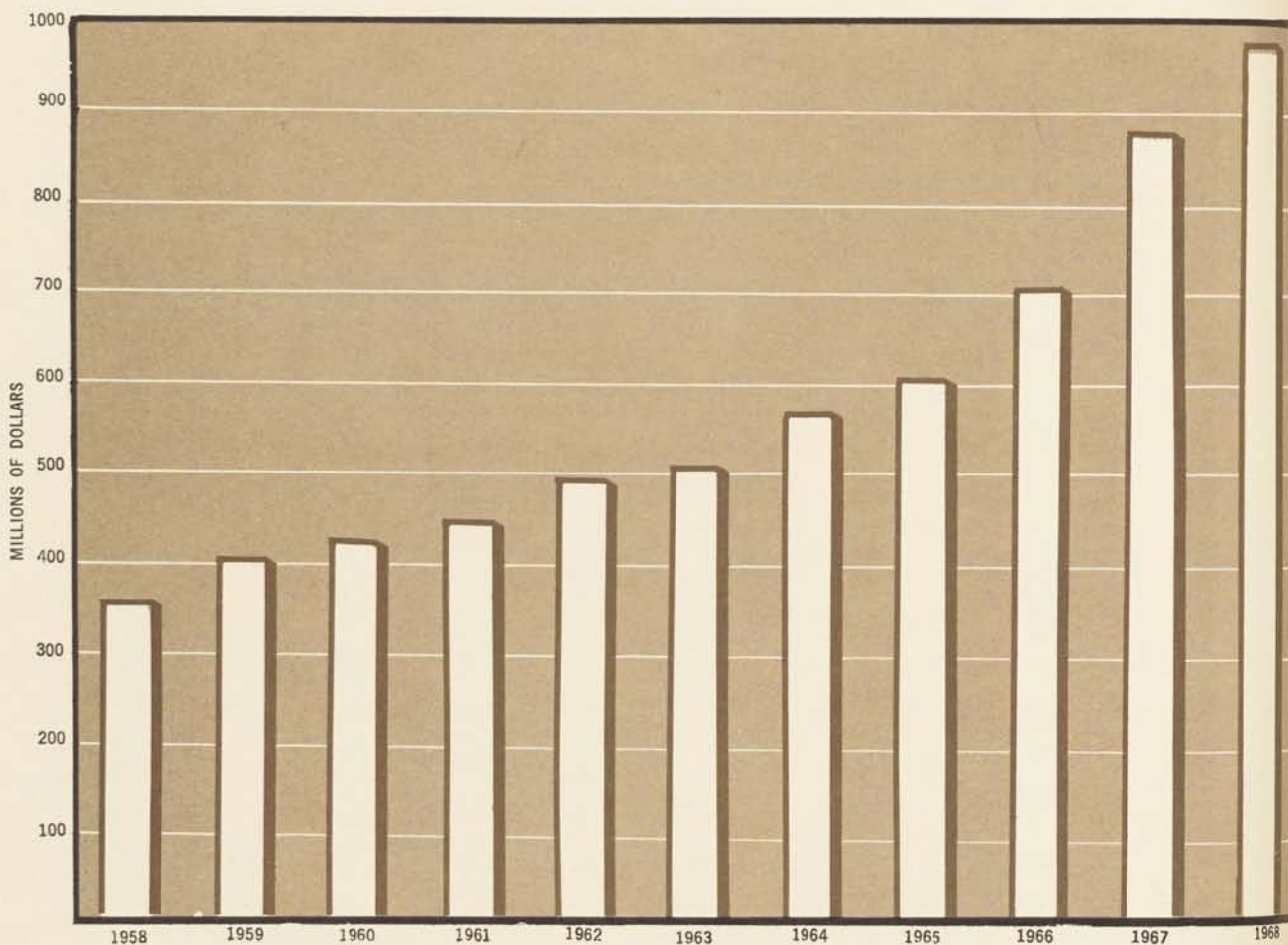


Only the most sophisticated features of today's electronic capability, manned by competent personnel, can keep abreast of the routine that, annually, handles millions of tax returns in a modern tax department. This revolutionary overtone is one that spans, by some twenty years, a period when related procedures was a matter of simple pencil and pad tallying.





Comparison of Major Tax Yields In FY 1968



Growth of Revenue Over The Past Decade

ADMINISTRATION

OF LIMITED SALES

AND USE TAX

Prior to the advent of the Limited Sales & Use Tax in 1966, Massachusetts was wholly dependent for the greater part of its revenue intake on the combined taxes on consumer goods such as gasoline and diesel fuels, cigarettes, alcoholic beverages, restaurant meals, the tax on personal incomes and those on business corporations.

The Massachusetts Limited Sales and Use Tax, originally enacted under date of March 2, 1967 as a temporary tax, and subsequently ratified, on November 29, 1967, as a more permanent aspect of the existing tax structure accounted, in the 1968 fiscal period, for tax collections in excess of 145 million dollars. This was fully 17 million more than was collected from the same source in the earlier 1967 period.

This levy has an immediate relationship to sales at retail and the storage, use or consumption of certain tangible personal property in Massachusetts. While both broad in scope and touching all levels of retail sales, it is largely restricted in its application to those wider categories of property constituting the basic necessities such as foodstuffs for human consumption, major items of clothing, general household utilities and the like thereby limiting its productivity in terms of potential revenue from such a tax source.

In this respect it is unlike that form of tax, administered in other state jurisdictions, which include many of these exempt items within the broader base as in the case of a general sales tax or the Gross Receipts Tax or the further use of a Multiple-stage Tax

imposed at all or most of the successive steps included in a production process. The Massachusetts Tax, alternately, is a single-stage levy that taxes an item of Property only once, at the point of its retail sale.

In the first full year of its operation this tax produced collections in the area of 128 million dollars as against an estimated revenue potential of 150 million dollars. This would indicate the normal difficulties involved in the implementation of a tax so vast in the totality of its coverage, the magnitude of the registration and indoctrination of potential vendors, liable for both the collection and payment of the tax, and the further magnitude of the problems encompassed within the context of "use" and "intent" within the definition of the law itself.



Sales tax administration calls for a constant deployment of staff auditors within the total state complex based on variable factors noted in all economic shifts.

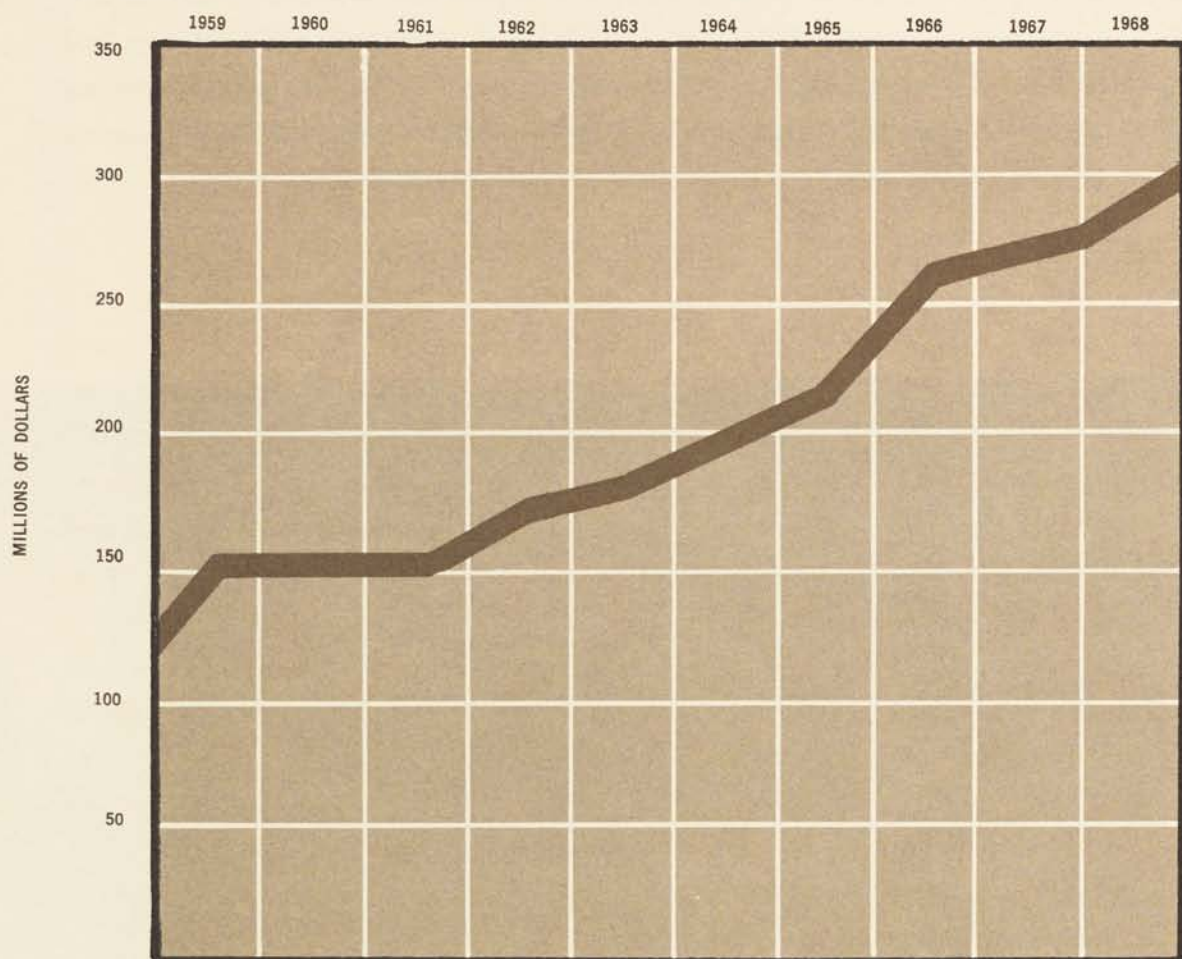
The closing of the revenue gap, suggested by the 145 million dollar total collected in the 1968 period, indicates both the solution of those hard-core administrative problems, held in abeyance for further legal definition, and a narrowing of the informational crisis posed by a greater public understanding of the tax obligation.

It would now appear, based on this same 1968 experience, that succeeding periods will be marked by tax collections wholly in accord with the earlier revenue estimate. The continuing function of the department, in this same sales tax area, is now confined to an intensified audit procedure or what has been characterized as a "continuing education by examination." This should be productive of yet further benefits in this specific revenue area.



An annual income tax filing period finds tax examiners answering a ceaseless round of taxpayer inquiries both in Boston and in assigned regions throughout the Commonwealth.

growth of personal income in past decade



CONSUMER TAXES

Within the scope of the 1968 fiscal period Massachusetts residents, augmented by the annual influx of visitors brought in by the state's natural and historic attractions, contributed better than 400 million dollars to the regular revenue intake in the form of commodity or consumer taxes.

Measured by any yardstick of current affluence or that of the wider dispersal of people made possible by modern transportation facilities, the greater proportion of this yield could easily be attributed to a wide range of expenditures for other than the basic necessities of life.

Consumer or commodity taxes, evaluated in accordance with the design of the existing Massachusetts tax structure, are made up of separate yields from such widely and diverse revenue sources as sales of motor fuels, principally gasoline; alcoholic beverages; cigarettes; room occupancies in hotels, motels, rooming houses or private clubs; restaurant meals and the broader coverage extended by the Limited Sales and Use Tax. This latter tax area, in view of its somewhat limited nature, excludes most of the basic necessities such as foodstuffs and conventional clothing and, for this very reason, is further indicative of consumer options in much of the purchasing power so reflected. The Sales and Use Tax, too, by the broadness of the coverage so extended, does not as easily lend itself to the determination of sales ratios or consumer quotients as evidenced by similar taxes measured in terms of gallonage or packages sold as in sales of gasoline and the related fuels, alcoholic beverages or cigarettes.

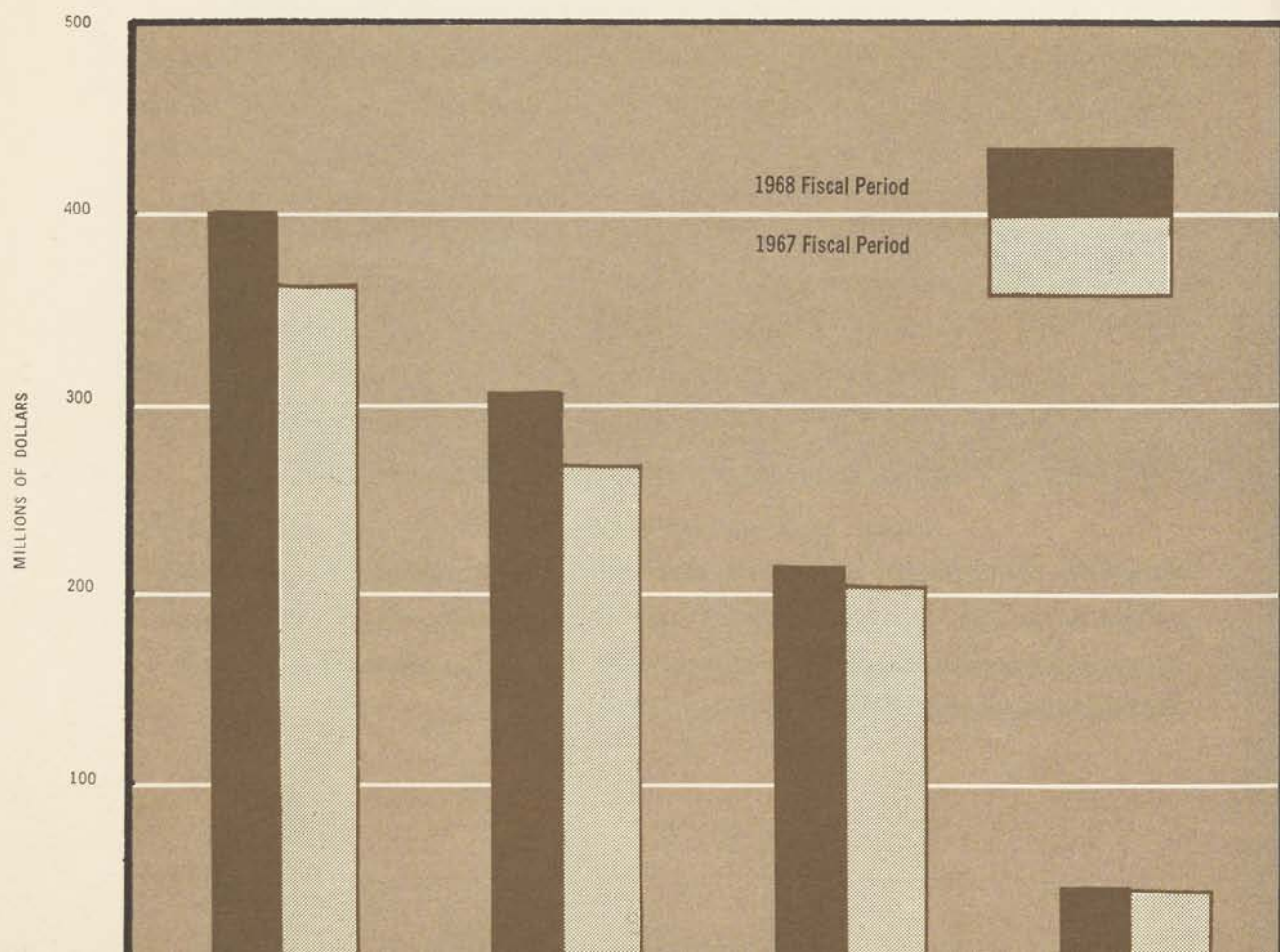
Some idea of the relative consumption of assorted alcoholic beverages, cigarettes and the related motor fuels in this whole area can be ascertained from the following chart which measures actual consumption based on the end tax collected over a five year period, fiscal 1964 thru fiscal 1968.

CONSUMER TAX COMPARATIVES

Fiscal Year Ending June 30

FISCAL PERIOD	CIGARETTES (packages)	BEER (gallons)	LIQUOR (gallons)	WINE (gallons)	MOTOR FUELS (gallons)
1961	702 million	81 million	8.9 million	5.8 million	1437 million
1962	722 million	84 million	9 million	5.9 million	1476 million
1963	733 million	84.5 million	9.6 million	5.7 million	1508 million
1964	727 million	89.4 million	9.9 million	5.9 million	1564 million
1965	728 million	89 million	10.5 million	5.9 million	1615 million
1966	700 million	93.8 million	10.9 million	6.0 million	1680 million
1967	701 million	96 million	10.8 million	6.0 million	1742 million
1968	694 million	97.6 million	11.8 million	6.2 million	1815 million

returns from major tax sources





A billion dollar annual revenue potential entails both the handling and processing of countless pieces of mail with their related tax returns or specific points of inquiry. Meeting the still wider ramifications of tax application and the basic operation of the department calls for frequent staff conferences at the administrative level.



UNIFORM PROPERTY TAX ASSESSMENT

As is true of all taxing jurisdictions, the duties attendant to the assessment of property for tax purposes requires a high degree of technical skill and competence for its proper discharge. While this can be regarded as a natural qualification for so complex a duty there is, within the provisions of Massachusetts law, no such requisite or qualification, both in training or experience, as a condition for holding this position in the cities and towns.

The position of Tax Assessor, originally, like other town officers, was an elective post for a term of one year. Since the year, 1878, there has been a tendency toward a longer tenure of office. Under present law, in every city or town except Boston, assessors are elected or appointed for a term of three years. Traditionally, it is the general practice to re-elect or re-appoint an assessor thereby maintaining a degree of high efficiency through experience and familiarity that would otherwise be impossible through a constant turnover of individual assessors without a statutory safeguard based on essential qualifications.

The trend of property tax assessment, in recent years, has been marked by all the variables noted in the shift of people from crowded urban living to the once more rural areas. With the shift has come all the variables of a greater complexity in the valuation of property and that of the equalization of such values throughout the Commonwealth.

Consistent with legislation proposed by the Massachusetts Federation of Taxpayers Association and adopted in 1955 (Chapter 649, Acts of 1955) the Bureau of Local Assessment was created as an adjunct of the Department of Corporations and Taxation. The specific function of this bureau is that of equalization of tax procedures as they relate to all these variables of property valuation through a rendering of essential services to the assessors of the 351 cities and towns.

At a time when this whole matter of property tax valuation grows exceedingly more complex assessors may turn to this

agency for necessary guidance or instruction or for the tools with which to carry out the complicated assessing process. In current practice this bureau functions as an aid to those communities that vote to accept the pro-offered services. It then proceeds to both advise and assist in the improvement of assessing methods and practice with the ultimate aim of an equitable valuation of all taxable property in the community accepting the service. Generally, the service rendered consists of the following:

1. Encouragement of uniform assessing practices.
2. Establishment of standard requirements for assessing offices.
3. Development of a method of periodic correspondence on assessing problems and assessing techniques.
4. Providing on-the-spot service by expert appraisers divorced from all local or partisan considerations.
5. The conduct of periodic surveys of existing assessing conditions supplemented by specific recommendations for improvement of existing defects or weaknesses.

A further service of the Bureau of Local Assessment is that of rendered assistance to communities who indicate, by the required vote, a desire for a revaluation and equalization program. Assistance, in this case, consists of advice and help in the preparation of basic contracts with private concerns engaged with the work of revaluation, the supervision of such revaluation and technical assistance offered in connection with the appeals brought forward by aggrieved taxpayers.

State Assessment System members that have availed themselves of this service, to date, now consists of 161 municipalities within the several Massachusetts county regions. Of the total so encumbered 6 are cities with the balance spread over a total of 155 townships.



Changing conditions in the 351 Massachusetts cities and towns is a topic of usual concern to the Bureau of Local Assessment. Charged with the chore of providing advice and counsel to communities beset with property revaluation problems, frequent exchanges of opinion are a high priority.

1967-1968 CALENDAR YEAR COMPARISON OF LOCAL AID FUND DISTRIBUTIONS

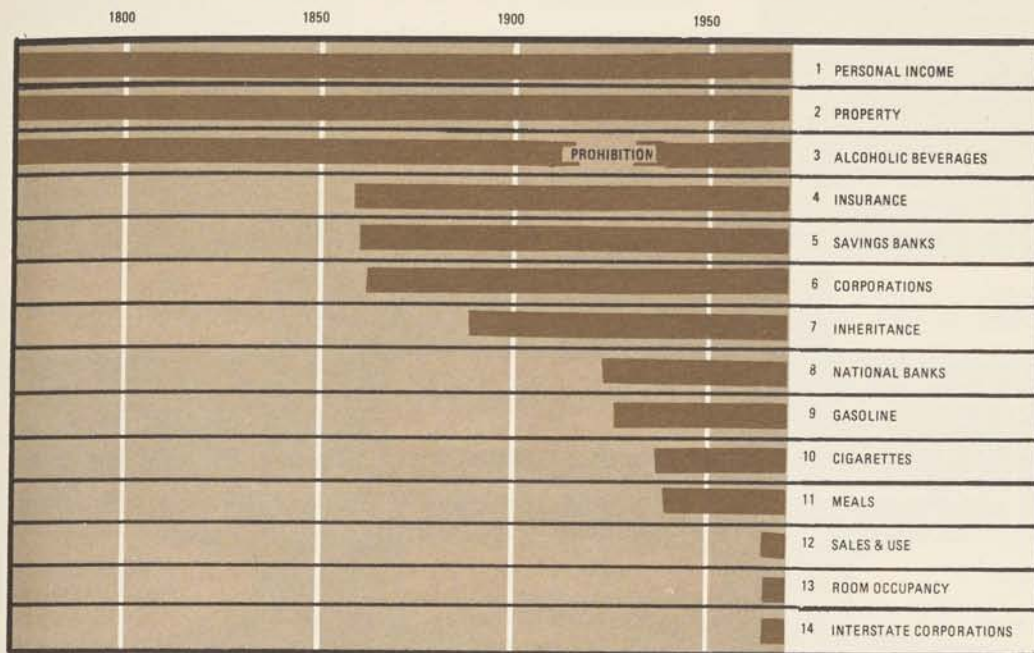
	<i>Amounts in Millions</i>		
	1967 Actual	1968 Estimate	1968 Actual
Machinery Basis	\$ 9.0	\$ 9.0	\$ 9.0
Valuation Basis	167.6	122.6	122.6
School Aid Ch. 69, 70, 71	105.3	116.5	120.9
Meals Tax	5.3	2.6	2.8
Cigarette Excise	2.1	2.2	2.4
Urban Redevelopment Excise	1.5	1.8	1.9
Calendar Year Totals	<u>\$ 290.8</u>	<u>\$ 254.7</u>	<u>\$ 259.6</u>

1967 and 1968 Calendar Year Comparison of Reimbursements:

	<i>Amounts in Millions</i>		
	1967 Actual	1968 Estimate	1968 Actual
City and Town Programs	\$ 130.3	\$ 154.8	\$ 150.8
Locally Related Programs	42.9	124.8	140.1
	<u>\$ 173.2</u>	<u>\$ 279.6</u>	<u>\$ 290.9</u>

Actual through December 23, 1968. Excludes \$90.6 millions Federal Receipts through December 23, 1968

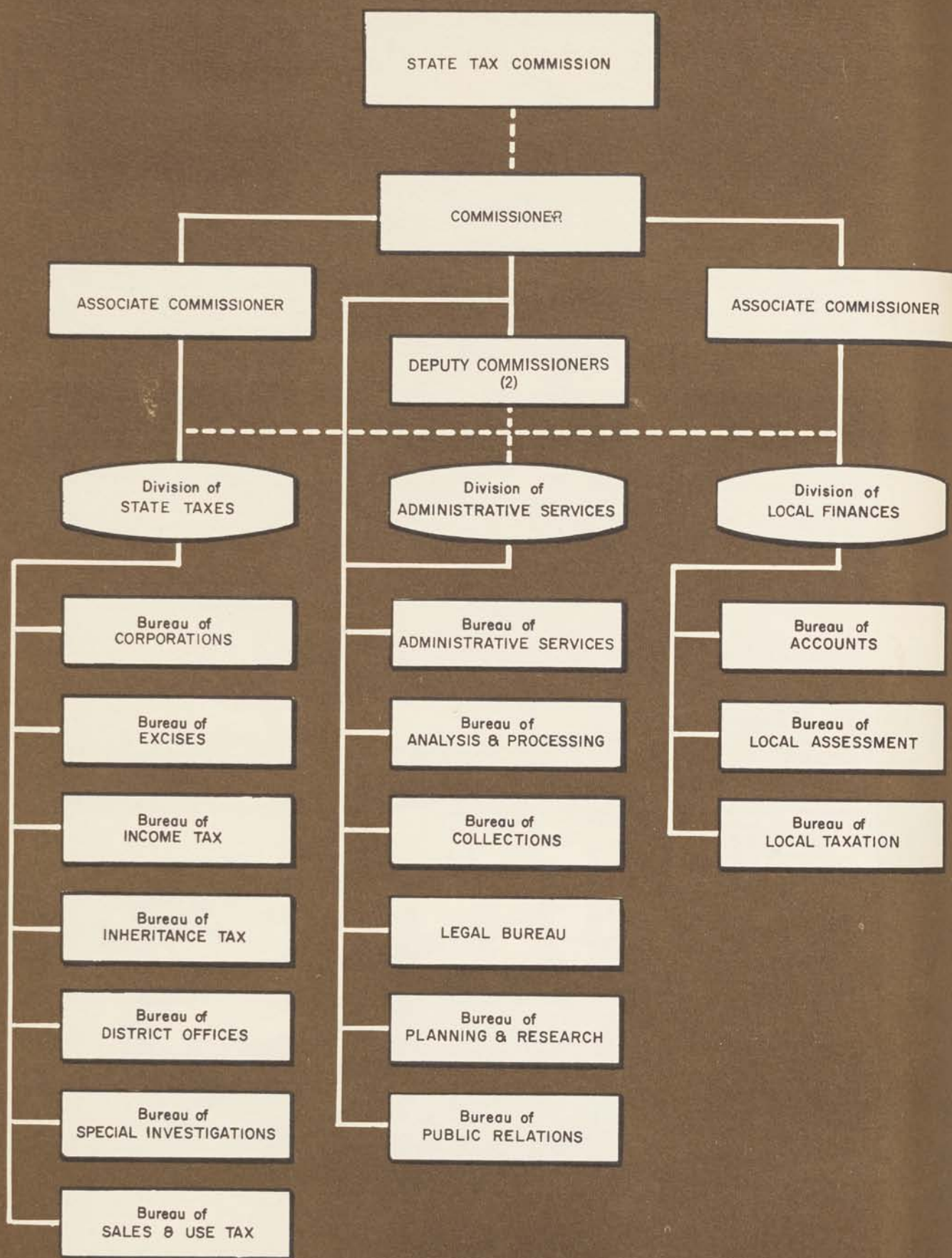
chronological chart of major state taxes



CONCORD BRIDGE

*"By the rude bridge that arched the flood,
their flag to April's breeze unfurled,
Here once the embattled farmers stood,
and fired the shot heard round the world."*

Ralph Waldo Emerson



Legislative Recommendations of The State Tax Commission

Consistent with the provisions of Section 33 and 33A of Chapter 30 of the General Laws, as amended, the State Tax Commission has made a total of some thirty-six legislative proposals for consideration during the coming legislative session.

In line with established commission policy these are largely measures based on administrative experience with the varied revenue sources deemed necessary for improved overall functioning of the department. As such they are considerate of administrative responsibilities towards more effective revenue production and to make less burdensome the taxpayer's compliance with the various statutes.

- 1. Relative to the abatement of state taxes.**
- 2. Imposing a criminal penalty upon persons who file false or fraudulent tax returns or other documents when not required to do so.**
- 3. Authorization for the Commissioner of Corporations and Taxation to designate depositories for the collection of state taxes.**
- 4. Providing additional remedies for the collection of state taxes.**
- 5. Providing for the immediate assessment of state taxes in certain cases.**
- 6. Revising the penalty for late returns and the interest for late tax payments.**
- 7. Revising the computation of reimbursement by the Commonwealth for certain state-owned land . .**
- 8. Eliminating the annual filing, by the assessors of the cities and towns, of tables of aggregates with the Commissioner of Corporations and Taxation.**
- 9. Conforming the exemption for a dependent under the Personal Income Tax Law with that under the Federal Internal Revenue Code.**
- 10. Increasing the limited income exemption under the Personal Income Tax Law.**
- 11. Repeal the provision for extension of time for payment of income taxes.**

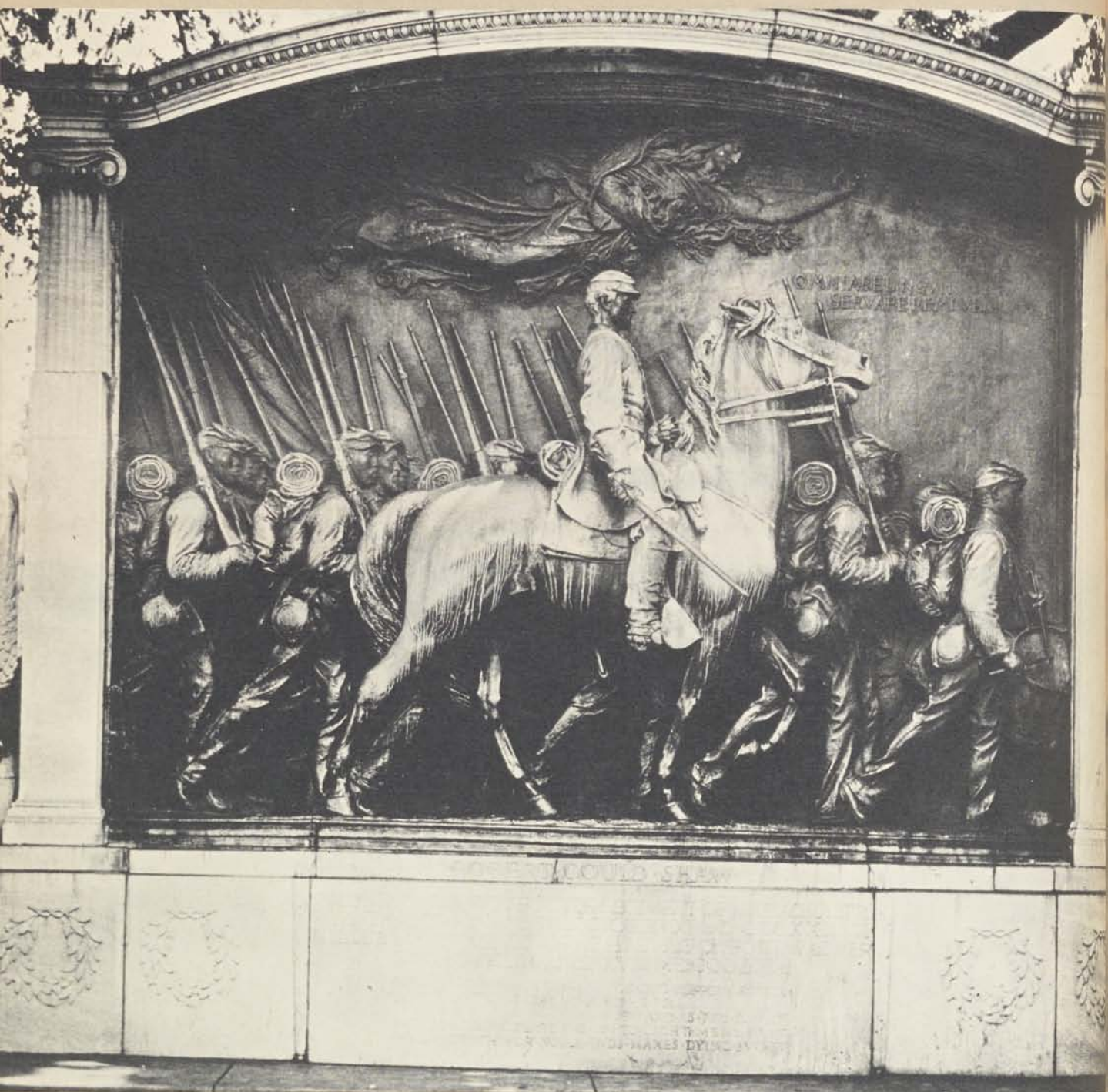
12. Eliminating, in certain circumstances, information returns under the Personal Income Tax Law.
13. Authorizing an increase in the income limit for the filing of short-form income tax returns.
14. Conform provisions of the Estimated Tax Laws for individuals and corporations to those under the Federal Internal Revenue Code.
15. Extend the time of appeal from the classification of a corporation by the Commissioner of Corporations and Taxation.
16. Clarify the Definition of a foreign corporation under the Business and Manufacturing Corporation Excise.
17. Relative to the machinery and equipment exemption under the Business and Manufacturing Corporation Excise for a corporation after a reorganization.
18. Eliminating equipment from the Tangible Property Exemption of the Business and Manufacturing Corporation Excise.
19. Extending the time for filing certain statements under the Business and Manufacturing Corporation Excise.
20. Relative to extensions of time for filing corporation excise returns.
21. Extending the time for appeal from the assessor's determination of value under the Urban Redevelopment Corporation Excise.
22. Relative to the taxation of boats and airplanes under the Sales and Use Tax Law.
23. Relative to the collection of Sales and Use Taxes.
24. Revising the exemptions and rates under the Inheritance Tax Law.
25. Conforming the definition of gifts in contemplation of death under the Inheritance Tax Law to that under the Federal Internal Revenue Code.
26. Relative to fees payable under the Inheritance Tax Law.
27. Authorizing the use of a standard deduction in computing inheritance taxes.

28. Limiting the time for the assessment and collection of inheritance taxes.
29. Changing the due date of Fuel and Special Fuels Excise returns.
30. Transferring administration of the Abandoned Property Law from the Commissioner of Corporations and Taxation to the Treasurer and Receiver General of the Commonwealth.
31. Further defining the term "District".
32. Relating to contracts by cities, towns and districts.
33. Relative to appropriations for the celebration of the anniversary of the settlement or of the incorporation of another town.
34. Clarifying the appointment by town and district boards of their members to other town and district offices.
35. Relative to temporary and assistant treasurers and assistant clerks in districts.
36. Relative to borrowing by cities, towns and districts.



PLYMOUTH ROCK

38 miles south of Boston lies the town of Plymouth and the setting for Plymouth Rock which was the stepping stone of the Pilgrims for their landing in the new world.



Dramatic in a bronzed concept is the Robert Gould Shaw Memorial by Saint-Gaudens. This life-sized replica of Colonel Shaw and his famed Negro troopers of the civil war faces the Massachusetts State House from a nearby edge of historic Boston Common.

*Thank you
for taking
the time
to study
our annual
report*

Cleo F. Russell
COMMISSIONER

